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RECENT MONETARY LEGISLATION.

It has been repeated by the public press, and assumed by the country, chiefly on the basis of reports emanating from Washington, that the act of March 14, 1900, whatever may have been its shortcomings in other directions, has at least firmly established the gold standard in the United States. The belief is generally prevalent that the election of a president pledged to the cause of free silver would no longer be a source of danger to our monetary system, because the gold standard has been placed by the new legislation beyond the reach of executive control; that the mere action of a future Secretary of the Treasury hostile to gold could not cause public or private obligations to be paid in silver; and that nothing could now be done for silver except by new and positive legislation, a contingency, which would be impossible so long as the Senate and the Executive favor gold. Hence we are assured that we may rest free from all danger of the "silver issue," which we hear on all sides is now "dead." On the strength of this belief, political lines are being drawn, and a plan of campaign is being formed. That there has been a subtle game of politics played

with our recent monetary legislation through the influence of the senate is unmistakably clear and is nothing unusual or surprising. But it is not certain that the general public is aware of the exact effect of the provisions of the new law, or informed how little has been done. Indeed, it may be a surprise to many to be told that, as regards the establishment of the gold standard, not only has practically nothing new been introduced into the situation by this bill, but that we have in general no new means of maintaining the standard which we did not have before the act was passed. If there had been possible danger from silver before March 14, 1900, the same danger still exists. Without any desire to be sensational or to create alarm, it is my belief that it is wise to face the facts of this new act as they are. While I do not believe that the gold standard is in any more danger than it was in 1899, I certainly do believe that we are not in any better position in 1900 than we were before.

In speaking of the gold standard as firmly established, one means the obligation to pay gold whenever the word "dollars" is used. As every one knows, the word "coin" allowed an uncertainty as to whether a contract generally payable in "dollars,' could be paid in silver dollars (of 371¼ grains pure silver) or in gold dollars (of 23.22 grains pure gold). This uncertainty in regard to United States bonds seriously affected their value, and was one strong reason why new legislation was thought to be necessary to remove all doubt. It may, therefore, be a shock to some trusting people to be told that, in spite of the new law, a silver-loving Secretary of the Treasury could today pay off very large amounts of government obligations with silver dollars. If a free-silver president were to enter the White House in 1901, there would probably be a large amount of obligations which could then be paid in silver.

Even if the standard of payments and prices may now in practice be gold, as regards both government and private debts, it is important to know how permanent this situation is. For simplicity, the matter of government bonds will be discussed

first. How has the act of March 14, 1900, affected the "coin" provision in which national obligations are payable?

The contention which arose soon after the Civil War, that the debt of the United States was payable in paper, was settled in fact by the actual refunding of the whole debt under the act of July 14, 1870, which provided that the bonds issued under this law should be "redeemable in coin of the present standard value." Obviously this phrase referred to the standard coin existing before the act of 1873, and which then included silver dollars (of 371¼ grains pure silver) as well as gold dollars. Of course, silver dollars were worth more than gold dollars in 1870; and, as we all know, both gold and silver coins had been driven from circulation by the depreciated United States notes; but such facts are not to the point. Coin, in our law in 1870, included the silver dollar, whether it was in circulation or not. Hence all the bonds refunded under the act of 1870 were payable at the discretion of the Treasury either in silver or gold dollars.

The act of February 12, 1873 ("the crime of 1873") did not abolish the legal tender value of any of the few silver dollars which might then have been in existence. It simply omitted to provide for the future coinage of silver dollars (sections 15 and 17); and added (section 14):

> That the gold coins of the United States shall be a one-dollar piece, which at the standard weight of twenty-five and eight tenths grains, shall be the unit of value, etc.

It will be seen, then, no matter what other considerations may be adduced, that under the law in 1870, "coin" certainly included silver dollars; and that the act of 1873 did not change this situation. And in declaring the gold dollar to be "the unit of value," it did not forbid the use of silver dollars in any payments, public or private. The limitation on the legal tender power in 1874 was the only change introduced at this time.[1]

The subsequent fact of importance is that all bonds of later issue (until the Spanish War Loan of 1898) have been based

[1] The revised statutes of June 22, 1874 inserted a provision (sec. 3586) which limited the legal tender power of all our silver coins to sums not exceeding five dollars.

upon the provisions of the act of July 14, 1870. That is, the existing four-per-cents of 1907 were issued under that act. Also, any bonds put out under the terms of the Resumption Act of January 14, 1875, in order to obtain gold, were "of the same description as those issued by the act of July 14, 1870." Thus the extended twos (of the loan of 1891), five-per-cents of 1894, and the four-per-cents of 1925, are covered by this latter statement. The United States bonds thus stood at the time of the passage of the recent monetary law, all payable in "coin":

4 per cent. bonds,	1907	$ 559,652,300
5 " " "	1904	100,000,000
2 " " "	1901 (extended)	25,364,500
4 " " "	1925	162,315,400
3 " " "	1898	198,678,720
		$1,046,010,920

The act of March 14, 1900, authorized a partial refunding of the old debt into 2 per cent. bonds, whose principal and interest is made specifically payable in "gold coin of the present standard value." It does not allow the refunding into the new twos of the extended twos of 1891, nor the four-per-cents of 1925—in all a sum of $187,679,900. Very recently (May 1900) the extended twos have been called in for redemption, so that the bonds of 1925 are the only ones in fact excluded. But it remains clear that a secretary, opposed to the gold standard, might on change of parties pay off at maturity $162,315,400 of national debt in silver, at his discretion. Nor is that all of it. Of the $858,331,020 of old debt refundible into the new gold twos, at the time of writing (June 1, 1900), only about 280 million dollars have been offered for exchange. How rapidly, or how thoroughly, conversion will go on, no one can now prophesy. However, there are so far unconverted bonds to the amount of 578 million dollars which, if not refunded, could be paid off at maturity in silver. In other words, not only the $162,315,400 of 4 per cent. bonds of 1925, but any of the other descriptions of bonds which may not be refunded into new twos, would be payable in silver

(in all, taking the impossible supposition that refunding should cease entirely from now on, to 740 million dollars). To the extent that conversion goes on, this gross sum will, of course, be reduced.

With the above situation it must be kept in mind that the act of March 14, 1900, specifically enacts (sec. 3):

> That nothing contained in this act shall be construed to affect the legal tender quality, as now provided by law, of the silver dollar, or of any other money coined or issued by the United States.

That is, the act of February 28, 1878, which made the silver dollars "a legal tender, at their nominal value, for all debts, public and private, except where otherwise expressly stipulated in the contract," is still in operation. The outcome is a visible attempt to sit on two stools: in one word to declare that the gold dollar shall be the standard unit of value, and in another to declare that the silver dollar shall remain an unlimited legal tender. The political legerdemain in this depends upon the inability of the public to separate the assignment of legal tender quality to the standard (in which prices and contracts are expressed) from the assignment of it to a token money (which should be redeemable in the standard money). Because the standard money is made legal tender, it does not follow that a medium of exchange should have that quality (such, for example, as checks and drafts).

The dodging of the standard issue in regard to government obligations cannot be excused on the ground of inadvertence. The House Bill (sec. 2) reads:

> That all interest-bearing obligations of the United States for the payment of money, now existing or hereafter to be entered into, ... shall be deemed and held to be payable in the gold coin of the United States as defined in section 1 of this act.

These words did not appear in the senate bill, and were excluded from the conference bill. In short, for political reasons, the senate leaders advisedly chose to change the currency measure in such a way that it could still be said that a large part of our national obligations were payable in silver;

while scheming for votes in the East on the ground of having established the gold standard, it would be possible to ask for votes in the Rocky Mountain states on the ground of having preserved the right to pay a large part of the bonds in silver. It must be said, therefore, that the new legislation establishes the payment in gold of only a part of our government obligations (and also that this amount depends upon how far they are refunded into the new twos).

The consideration, however, of most importance to the business public is the certainty of the standard in ordinary private contracts drawn in "dollars," without a specific agreement to pay gold. Naturally, it may be said that the national bonds could not be paid in silver any way until the time of maturity, and that that fear need not give much reason for distrust. But as to private debts, falling due every day, every one realizes it to be a matter of present concern. Since the unlimited legal tender power of the silver dollar is retained for all obligations in which gold is not expressly stipulated, it is clear that all private contracts thus generally drawn could be liquidated in silver. The gold standard of payments, therefore, is not made obligatory for private debts. The new law manifestly has not established the gold standard for the ordinary transactions of daily business life. If a lender of money wishes to secure repayment in gold, he must, today, as well as before this act was passed, expressly stipulate for gold in the contract. The act of March 14, 1900, does not give us any new protection in this regard. Hence we ought to give up the fiction that the new law has "established the gold standard."

Since silver dollars can be paid for public and private debts in nearly as many cases as before the act of 1900, the question as to the permanence of the gold standard is, then, to be found in the provisions for maintaining silver at par with gold. Certainly, a reader might say, so long as silver is kept in value equal to gold, no one would object to being paid in silver; and reference

might be made to the fact that the new law (sec. 1) not only declared the gold dollar to be "the standard unit of value," but also that "all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity" To the innocent reader this may look like a veritable establishment of the parity of silver with gold. But it adds nothing that did not exist in the law before (in the acts of July 14, 1890, and November 1, 1893).[1] It pretends to establish parity by command, but it gives absolutely nothing with which to maintain parity. Suppose that Congress had ordained that the navy should have had all the old powder exchanged for smokeless powder, and that it should have made it the duty of the Secretary of the Navy to make such exchange, and had provided no appropriation for this purpose, nor allowed any new machinery for carrying out the plan beyond what existed before. Should we not regard this as something more than trickery? Certainly: it would be an insult to the intelligence of the public. In the new monetary law, we have actually no means of maintaining silver dollars at par with gold which did not exist before the act was passed. Here again, the jugglery of the senate leaders showed itself. The House Bill ran (sec. 4):

[1] Act of July 14, 1890 (sec. 2): "That upon demand of the holder of any of the Treasury notes herein provided for, the Secretary of the Treasury shall, under such regulations as he may prescribe, redeem such notes in gold or silver coin, at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present ratio, or such ratio as may be provided by law."

Act of November 1, 1893: "And it is hereby declared to be the policy of the United States to continue the use of both gold and silver as standard money, and to coin both gold and silver into money of equal intrinsic and exchangeable value, such equality to be secured through international agreement, or by such safeguards of legislation as will insure the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts. And it is hereby further declared that the effort of the government should be steadily directed to the establishment of such a safe system of bimetallism as will maintain at all times the equal power of every dollar coined or issued by the United States, in the markets and in the payment of debts."

The Secretary of the Treasury is authorized and required to use said [gold] reserve in maintaining at all times the parity and equal value of *every dollar issued or coined* by the government; and if at any time the Secretary of the Treasury deems it necessary in order to maintain the parity and equal value of *all the money* of the United States, he may at his discretion exchange gold coin for any other money issued or coined by the United States.

In short, the house bill set out to provide a gold reserve to be used for the maintenance of the parity of all kinds of our money; but the senate overruled this plan, and limited the use of the gold reserve solely to United States notes and treasury notes of 1890. That is, if the treasury should find difficulty in keeping about 579 million of silver dollars at par with gold, he could not use the new gold reserve (for the replenishment of which provision was made by selling bonds). All the regulations of the reserve apply to the two forms of paper (amounting to about 426 million dollars), while about 575 million dollars of silver, which carries a seignorage of over 50 per cent. is left without any direct means of redemption into gold, as a means of keeping the parity. I have said that the permanence of the gold standard depends upon the provisions of the new law as to maintaining the parity between gold and silver; but we now see that no new means whatever have been given to accomplish this end Such methods of keeping silver at parity with gold which existed before the act of March 14, 1900 are still the only means we now have of assuring the continuance of the gold standard. The new law has not given us any new methods of redemption.[1] Here we have had an exhibition of gross cowardice on the part of Congress.

In one respect, however, the new legislation has bettered the chances of keeping our silver at par with gold. By the withdrawal of United States notes and national bank notes (except one third of the new circulation) in denominations below $10, and by reducing the large silver certificates to small denominations to take their place, an additional use is created for the

[1] How silver has been, in fact, kept at par with gold in the past by an indirect system of redemption through the payment of customs, and by the complementary offer of gold to all creditors of the treasury, I need not go into here. Cf. my *History of Bimetallism in the United States*, 4th ed., pp. 253–255.

silver money, and therefore there will be less reason for its redundancy and consequently for its presentation at the treasury in payment of customs in a process of indirect redemption. By increasing the probability of keeping silver permanently in circulation for purposes of change, it becomes less dangerous.

But this gain is fully offset by the provisions of the act which affect the silver bullion behind the treasury notes of 1890, and which will increase the quantity of silver dollars to be kept at a parity. Here we have another sop to Cerberus. From a sane point of view it is not much more creditable than the measure to coin the seignorage which was defeated some years ago. Under the act of July 14, 1890, 168,674,682.53 ounces of fine silver were bought by the issue of $155,931,002.25 of treasury notes. The average price paid per ounce for this bullion was $0.9244; and as the price is now about one third less, the value behind the notes has become one third less. But if this bullion were coined into silver dollars (at the rate of 371¼ grains each), the 168,674,682.53 fine ounces would yield about 218 million silver dollars. Then, instead of $155,931,002.25 treasury notes to look after, there would have been a vastly larger bulk of silver dollars to be added to those already coined under the act of 1878. The disposition of this bullion is a fair test of the animus of the new legislation. One bit of help exists in the permission to use enough of the bullion to increase the subsidiary coinage to 100 million dollars; and since the amount outstanding March 1, 1900, was $80,101,151, it appears that an increase of nominal face value to the sum of about 20 million dollars (or about 14 million fine ounces) is possible. With this exception the act emphasizes the policy of coining the rest of the bullion into dollar pieces and retiring the treasury notes. It is doubtless generally understood how the terms of the act of July 14, 1890 would have brought about a gradual extinction of treasury notes of 1890. This process was established in the words: (sec. 2.)

> *No greater or less* amount of such notes shall be outstanding at any time than the cost of the silver bullion and the standard silver dollars coined therefrom, then held in the treasury purchased by such notes.

Hence treasury notes, when redeemed by gold would be reissued in order to keep the amount equal to the bullion plus the silver dollars held; but when redeemed by silver, the treasury notes would be canceled in order to keep the amount outstanding no greater nor less than the bullion plus the diminished number of silver dollars held. The released silver dollars, if returned in any way to the treasury, could then become the basis of additional silver certificates (but never of treasury notes). This explains why the treasury notes were gradually being reduced in volume, coincident with an increase of silver dollars and silver certificates.

The act of June 13, 1898 (the Spanish War Loan and Revenue Act), stimulated this process by the following requirement (sec. 34):

> That the Secretary of the Treasury is hereby authorized and directed to coin into standard silver dollars as rapidly as the public interests may require, to an amount, however, of not less than one and one half millions of dollars in each month, all of the silver bullion now in the treasury purchased in accordance with the provisions of the act approved July 14, 1890 . . . and said dollars, when so coined, shall be used and applied in the manner and for the purposes named in said act.

Then the act of March 14, 1900, specified that as fast as silver dollars were coined under the foregoing laws, the secretary should (sec. 5):

> Retire and cancel an equal amount of treasury notes whenever received into the treasury, either by exchange in accordance with the provisions of this act or in the ordinary course of business, and upon the cancellation of treasury notes silver certificates shall be issued against the silver dollars so coined.

In this way the new law has brought about the cancellation of treasury notes without waiting for the former process of redemption by silver, thus hastening the conversion of treasury notes into silver certificates. The only advantage to be gained from this action is the final disappearance of one of the too many kinds of money which make up our circulation.

When the new law came into force there were only $86,776,000 treasury notes outstanding, supported by bullion costing $77,402,692, plus $9,373,308 silver dollars. The number of

ounces of fine silver uncoined at that date was about 85,550,000. Consequently, instead of 155 million dollars in treasury notes, we shall have about 200 million in silver dollars when conversion has been completed, or an increase of not less than 45 million dollars. This increased volume of silver dollars will raise the total issue (including the 378 million dollars coined under the act of 1878) to about 578 million dollars. For the maintenance of this vast sum at parity with gold, when each silver dollar is actually worth only about 47 cents, there is absolutely no method of direct redemption in gold. And the act of March 14, 1900, gives no new provisions whatever to accomplish this end, or to support its windy and virtuous order to the secretary to maintain the parity. Congress might as well have ordered the secretary to see that every citizen of the United States should have blue eyes, so far as any new power was given him to carry out the purpose.

It will be noticed that all the machinery for a gold reserve, its increase to 150 million dollars, its replenishment from sales of bonds, etc., has to do solely with protection to the United States notes and treasury notes of 1890. Hence, when the latter have ceased to exist, the gold reserve will remain only for the government paper, with nothing in reserve for our token silver. The ominous feature of this arrangement is the evident intention to regard the United States notes as a permanent part of the circulation. No suggestion whatever is made as to the future retirement of any portion of this form of our money. That, it is clear, must be reserved for future reforms.

But although the new measure has given us no firmer hold on the gold standard, and has done nothing to remove the United States notes, it has, indeed, secured to us a reform which, in possibilities of safety in the future, wholly outweighs any other feature of the act. One who has not watched carefully the origins of our paper money delusions will fail to realize how dangerous was the confusion in the minds of our legislators in the past between the monetary and the fiscal functions of the

state. It was this confusion which, in 1862, led to borrowing in the form of demand obligations to be used as money; a depreciation of the standard of prices; the destruction of our credit in the loan market; the appearance of speculation and unsettled business conditions—and all the evils of a fluctuating currency. Since the resumption of specie payments in 1879, the gold reserve has been a part of the general fund applicable to fiscal purposes in cases of deficit, as well as to the redemption of our paper money. For this reason we got into serious trouble when deficits used up the gold reserves, because fiscal operations took immediate effect on the character of our standard of prices and contracts. No mere question of revenue and expenditure of the general treasury should ever be permitted to have such an influence on our standard that business could be seriously crippled thereby. It is such an anomalous situation as this which has been made impossible by the distinct separation of the funds used for reserves behind the government paper from other cash in the hands of the state. This appears in the new form of treasury statements. In the years to come nothing we have accomplished will do more than this one provision to clarify the public mind as to the true status of our paper money, and to save us from stupid blundering. While this part of the act has excited little comment in the press, it is of first importance as a piece of positive legislation. This one measure would alone have made the present act prominent in the history of monetary legislation since the Civil War. It was just such a measure as this which formed the pivotal part of the recent Russian monetary reforms.

The regulations by which the gold reserve for government paper is to be maintained, and the details of redemption, are doubtless clumsy, and drawn in such a way as to escape political attack; but there is little reason to believe that they will not work out successfully in practice. Certainly the redeemability of the United States notes and the treasury notes of 1890 is provided for beyond peradventure, in the permission to sell bonds to protect the gold reserve. But the separation of the Issue and

Redemption Departments from the general treasury funds makes still more clear than ever that no gold in the former can ever be used in the indirect or direct redemption of silver dollars; and that the character of the silver circulation depends wholly upon the composition of the free treasury balance. If gold does not readily come in for revenue, or if redundant silver should be paid in instead, the free balance would more quickly than of old indicate the difficulty of maintaining our large silver circulation at a parity with gold.

The sections of the law relating to banking may be dismissed in a few words, because the changes proposed are unimportant. The reduction in the tax on circulation, and the increase in the amount of notes issued by banks to 100 per cent. of the value of the bonds, will have no serious influence in expanding the circulation.

The refunding provisions, however, are of an important character. They are important because, in order to serve a political end, one of the generally accepted principles of finance has been violated. There can be no doubt that the extension of the term of the new bonds to thirty years had only political considerations behind it. It is almost inconceivable in an intelligent community that a state should put its bonds in a form where they cannot be paid off within a reasonable period. After the present extended twos are paid off (a process now going on), and should all the old bonds be refunded into the new loan, our national debt could not be reduced (except by purchase in the open market) before the 4s of 1925 mature. So flagrant an abuse of sound finance can be explained only on the supposition that a supply of national bonds would be assured for a generation to come in quantity sufficient for the security of the national bank circulation. This was the adroit move by which the senate leaders succeeded in shelving for decades the demand for an elastic bank currency based upon commercial assets. And if the refunding measure released a considerable sum from the treasury in payment of premiums, and caused an enlargement of

the banking circulation, it would be supposed to ease the money market during a presidential year, aid in the "prosperity" argument, and assist in the political purposes of the party in power. In general, it can be said that the new measure does not add anything of value to the machinery by which the banks are enabled to adjust the supply of currency automatically to the needs of the public. Many small banks, and some large ones, will no doubt be established, or come into the system, but after that increase, the rigidity of the old system will remain with all its well-known characteristics.

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